

**USAID/Israel**  
**Operational Plan**

**FY 2006**

June 12, 2006

## **Please Note:**

The attached RESULTS INFORMATION is from the FY 2006 Operational Plan and was assembled and analyzed by the country or USAID operating unit identified on the cover page.

The Operational Plan is a "pre-decisional" USAID document and does not reflect results stemming from formal USAID review(s) of this document.

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**FY 2006 Program****SO: 271-001 Support Policy Reform for Financial Stability****Improve Economic Policy and the Business Environment**

Improve Economic Policy and the Business Environment (\$237,600,000 ESF). The USAID program's objective is to reduce Israel's balance-of-payment pressures as Israel continues to experience difficult challenges to economic growth. For its part, the GOI has continued to implement a series of ambitious structural reforms required for financial stability and sustainable growth. Though the U.S. cash transfer is not conditioned on economic policy reform, the United States continues to encourage Israeli efforts to reduce government spending and deficits, improve tax and public wage structures, increase privatization, reform labor markets, and continue to liberalize its trade regime. Over the last year, Israel has met its target expenditure and deficit rates and improved export competitiveness. Expanding business investment and governmental infrastructure investment, as well as current export growth will help Israel reach its gross domestic product (GDP) growth rate potential. Promoting market-oriented reform in Israel contributes to its economic growth; supports Israel's economic and political stability; permits a gradual phasing-out of U.S. economic assistance; enhances Israel's ability to repay its debt to the United States; and opens new opportunities for U.S. investment and export sales. U.S. assistance also helps to relieve the economic burden Israel has incurred due to its regional isolation and the instability in the Middle East by enhancing the GOI's economic relationships in both the regional and global economies.

Israel's economy responded favorably in the previous decade to the restructuring imposed after the fiscal crises and hyperinflation of the mid-1980s. Since 1990, the economy has become increasingly sophisticated and technologically advanced. In FY 1999, Congress began a reduction of the economic assistance earmark in recognition of this progress. The United States will continue to reduce ESF to Israel by \$120 million per year, eliminating it completely by FY 2008.

Israel's economic boom in the 1990s was based on a thriving high-tech sector, sharply increased investment by venture capital firms, the opening of new markets to Israeli exports, and a record level of tourism. With the downturn in the global economy, problems in the high-tech sector and a worsening security situation in Israel, the period of 2000-2003 saw increasing unemployment and declining tax revenues. In addition to the obvious effect on tourism, the violence had a negative impact on foreign investment and overall economic confidence. In 2003, after nearly three years of economic recession (GDP contracted by 0.5% in 2001 and 0.9% in 2002), the economy grew by 1.2%. In 2004, GDP increased by approximately 4.4% and is expected to meet or exceed this rate in 2005. However, Israel's economic recovery will remain sensitive to the global economic picture and the domestic security situation.

The United States Government (USG) strongly supports the GOI's economic reform measures and underscores its support at the annual U.S.-Israel Joint Economic Development Group (JEDG). These high-level policy discussions also help to reinforce the GOI's commitment to the reform process. Beyond maintaining a stable macroeconomic environment, the JEDG provides a forum to encourage the GOI to reform its financial sector, reduce labor market rigidities, proceed with further trade liberalization, and accelerate the privatization program. The provision of \$9 billion in loan guarantees over fiscal years 2003 - 2007, with an available rollover provision in 2008, was authorized in the Emergency Wartime Supplemental Appropriations Act of 2003 and the Foreign Operations Appropriations Act of 2004. The guarantees, which are predicated on the continued implementation of the GOI's reform program and declining government deficits, will further contribute to this goal.

**FY 2007 Program****SO: 271-001 Support Policy Reform for Financial Stability****Improve Economic Policy and the Business Environment**

Improve Economic Policy and the Business Environment (\$120,000,000 ESF). The FY 2007 Appropriation Bill is expected to provide \$120 million in economic support funds as a cash transfer to the

GOI. It will be used to repay debt owed to the USG, including refinanced Foreign Military Sales debt, and the purchase of U.S. goods and services.

**FY 2006 Program**

**SO: 271-002 Improving the Movement of Palestinian People and Goods in and out of Israel**

**Increase Trade and Investment**

**FY 2007 Program**

**SO: 271-002 Improving the Movement of Palestinian People and Goods in and out of Israel**

**Increase Trade and Investment**

## **Results Framework**

**271-001 Support Policy Reform for Financial Stability**

**Program Title: Israel Cash Transfer**

**271-002 Improving the Movement of Palestinian People and Goods in and out of Israel**

**Program Title: Improving the Movement of People and Goods**